

VZCZCXRO1679
RR RUEHMR RUEHRN
DE RUEHKI #0641/01 1621535
ZNY CCCCC ZZH
R 111535Z JUN 07
FM AMEMBASSY KINSHASA
TO RUEHC/SECSTATE WASHDC 6279
INFO RUEHXR/RWANDA COLLECTIVE
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY
RUEAIIA/CIA WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 000641

SIPDIS

SENSITIVE
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DEPT PASS TO OPIC (TWEBB)

E.O. 12958: DECL: 06/05/2017
TAGS: EMIN EINV ECON CG
SUBJECT: PHELPS DODGE DIGS IN

REF: A. KINSHASA 533
1B. KINSHASA 403

Classified By: EconOff W. Brafman for reasons 1.4 b/d.

11. (SBU) Summary. American company Phelps Dodge is making steady progress on its Tenke Fungurume copper/cobalt mine development, despite a wide range of obstacles. Phelps Dodge has twice increased its first-year copper production estimate since it entered into the joint venture and plans to begin mining operations in October 2008. Mining company officials say they are keen to be innovators in the technological, infrastructural and social development of the project. End summary.

12. (SBU) Ambassador and EconOff toured the Tenke Fungurume Mining (TFM) concession on May 24, during a May 23-26 visit to Katanga province. U.S. company Phelps Dodge (PD), acquired in April by New Orleans-based Freeport McMoran, is the majority shareholder in the TFM joint venture, approved by the GDRC in July 2005. PD officials said that because their current name is already well-known in the DRC and they will not likely change it for the purposes of the TFM project.

PROJECT DEVELOPMENT - OVERCOMING OBSTACLES

13. (C) TFM is developing its copper/cobalt joint-venture mining project as quickly as conditions allow, and is expanding production estimates as the work advances. EconOff observed steady progress in construction projects and staffing levels since a February 2007 visit. TFM announced in May an increase in its first-year production target from 100,000 Metric Tons (MT) of copper to 115,000 tons of copper. It aims to begin mining in October 2008, although during the concession tour PD officials said the operations could perhaps start even sooner. Once constructed, the processing plant should produce 7,000 to 8,000 MT of 99.99 percent copper metal daily. With current technology, its above-ground minerals will last an estimated 19 years, and there are additional 22 years of known reserves.

14. (SBU) TFM is pouring hundreds of millions of dollars into project development, including in infrastructure, equipment and social investments. Company officials say they want to be the innovator in the DRC mining sector on all these fronts. For example, TFM has imported some high-tech mining equipment that is the first of its kind to be used in the DRC, according to one PD official. TFM is also pursuing some innovative environmental initiatives, such as the development of a small botanical garden to preserve several rare plants

identified on the property.

15. (SBU) Like other mining companies in Katanga, TFM must build roads and find additional power and water sources, as the DRC's current infrastructure is inadequate. The company is also seeking ways by which the surrounding communities can benefit from this work. TFM plans to work with SNEL, DRC's electricity parastatal, to rehabilitate three 65 MW hydroelectric plants. TFM must also build a 14 KM power line. The company anticipates a 100 MW electricity requirement for the first four to five years after the new electrical source comes on-line, with the balance of the power produced made available to the public. TFM is determining what export and import paths it will regularly use. Currently it expects to work with six different ports in Southern and Eastern Africa, depending upon the content and source or destination of the goods and materials. One of the ports TFM plans to use is in Namibia, because a customs-free border crossing between Namibia and Zambia facilitates relatively rapid transport. (Katanga province borders Zambia.)

16. (C) TFM officials also outlined several factors that hamper more rapid project development. One impediment is the endemic culture of corruption and the resulting difficult business conditions. The company reports it has made progress in disseminating the message it will not engage in corrupt activity to accomplish its goals, but some resistance remains.

17. (SBU) The importation of goods and equipment continues to drag, caused in part by the GDRC's delay in approving the list of equipment entitled to duty-free import. Further, the quantity of goods awaiting import often exceeds the capacity

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of the staff of BIVAC, GDRC's customs inspection and clearing agent, according to a TFM official. TFM cannot import directly into Fungurume because the immigration (DGM) and customs service (OFIDA) have no presence there, and goods must first clear customs in other towns before transport to TFM's site. To resolve this issue, the GDRC has agreed to open offices at the Fungurume airstrip once TFM constructs buildings to house the operations. A commercial bank intends to open an office near TFM's airstrip to facilitate the import transactions, and also to reduce TFM's need to bring in large sums of cash to pay employees' salaries.

SOCIAL DEVELOPMENT ON TRACK

18. (U) TFM continues to work with surrounding communities and NGO partners to develop sustainable projects that give the company its "social license" to operate. (Note: Reftels A and B provide a more detailed accounting of TFM's social sector activities, which include the development of health facilities and micro-enterprises. End note.) The Ambassador toured two of TFM's social projects - a school and the site of independently-owned and operated brick-making businesses with about 370 workers. The micro-enterprises are designed directly or indirectly to support and benefit from TFM's operations. For example, TFM is purchasing the bricks to build homes for villagers who must move from their current locations on the concession. TFM's managers view the income generating activities as particularly important, because they create livelihoods for at least some of the thousands of job-seekers the company is unable to hire. TFM's mining operations will directly employ about 1100 expatriates and Congolese during full operation.

SECURITY

19. (SBU) TFM continues to maintain fairly tight security on its concession, primarily by its private security and by unarmed government Mining Police. TFM has an agreement with

the GDRC to support the salaries of the Mining Police, but hopes eventually not to need that security force.

COMMENT

¶110. (U) The currently high copper and cobalt prices create a temptation to take shortcuts to speed to the mining stage, but TFM does not appear to have chosen this route. Despite the daunting obstacles they face, we see TFM and Phelps Dodge as setting a positive example for other investors. End comment.

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